Speech

Philanthropy in the 21st Century

Susan Berresford

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Center for Social Development

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Susan Berresford
President of the Ford Foundation

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Center for Social Development
George Warren Brown School of Social Work
Washington University
Campus Box 1196
One Brookings Drive
St. Louis, MO 63130
Telephone 314-935-7433
Fax 314-935-8661
Email csd@gwbmail.wustl.edu
http://gwbweb.wustl.edu/Users/csd/

It is a great pleasure to be at Washington University today. In recent years, Ford has granted over $6M to St. Louis based organizations, including Washington University. And I have strong personal bonds to this university. My brother was educated here and my godfather, Thomas Elliot, was the Chancellor and my nephew studies here today.

So Michael didn't have to twist my arm. Especially since he suggested that I talk about philanthropy and where it is going as we enter the 21st century. Philanthropy is changing swiftly and is likely to be the subject of public debate as the new administration moves ahead. It is important for us all to understand the issues that will come up and to participate in debates about them. Your voices and support can help ensure that philanthropy remains a vigorous contributor to our national life.

My comments today will cover three questions:
What is philanthropy and how is it changing?
Why should you care about it?
What are the key philanthropic policy issues likely to be debated?
I'll begin with the question: What is philanthropy?

The dictionary says: "The effort or inclination to increase the well-being of humankind, as by charitable aid or donations." In these terms, philanthropy is a near-universal phenomenon. Many nations promote it through their religious and/or legal systems. Some scientists say this altruistic impulse is embedded in our genes, reflecting the survival value of helping each other.

Here in the U.S. the philanthropic impulse was strong in Native American traditions, the colonists' lives, and the actions of our nation's founders. It continues today and is recognized and encouraged by our legal system including tax deductions and inheritance tax policy.

I believe that U.S. philanthropy has three American values at its core: generosity, exploration and freedom. Generosity is obvious. We value one person's giving that supports the hopes and dreams of others. Exploration is another treasured value; we enable donors to use their money to experiment with ideas they believe will bring progress. And freedom is at the core of American philanthropy. We have a dazzling diversity of freely expressed visions and types of generosity. Generosity, exploration and freedom – I will return to those values later.

Few of us realize how large American philanthropy is today. In 1999, total charitable giving amounted to $190 billion. About 90% of giving came from you and me and others – our personal donations to religious, educational, community and other organizations. Independent grant-making foundations like Ford account for a little more than 10% of total philanthropic giving, or $22.8 billion.
Economic prosperity has driven dramatic proliferation of foundations. Today, there are about 47,000 grantmaking foundations in the U.S, more than double the number twenty years ago. Just in the past two years, over 5,200 foundations were established – or about seven a day, every day, Sundays and holidays included. Gifts and bequests from donors to foundations jumped 43% between 1997 and 1998. Individuals and families have created many of the new foundations. Financial services companies and banks are creating foundation-like entities to help their well-

off clients make grants. And there is a rise in the number and size of community foundations which pool individual contributions to address local problems.

Growth has brought welcome diversity to our field. People used to think of foundations as "establishment" institutions concentrated in the northeast. No more. Now they are more evenly distributed with new, large and small grantmakers in every section. USA Today offers this factoid today: 8 out of 10 states with the fastest growing charitable assets in the last decade are in the West. You know about Gates in the Northwest; Packard in the Bay Area; Buffet in Texas. Another changing pattern: many of the foundations set up by new dot-com millionaires focus more strongly than older ones on public education, technology and the environment.

The rising stock market brought a dramatic increase in foundation assets which has led to rising levels of grantmaking. For example, foundation giving rose 17.2% between 1998 and 1999.

This surge in numbers, assets, giving and variety of foundations has generated increased media attention, further fueled by media-genic donors like Bill Gates and Ted Turner. The growing assets also seem to have stimulated discussion about the accountability of foundations and philanthropists. Accountability concerns are being voiced just when foundations have become more and more open to the public. Foundations are now routinely expected to publish annual reports, and their operations and grant processes are more and more transparent. Many, like Ford, work with grantees and others to continuously evaluate and improve their operations. And there is also now emphasis on greater professionalization of the grantmaking role. Ford, for example, has intensive training and professional staff development activities for its grantmakers that we offer to other foundations and donors. So I believe the accountability concerns really reflect questioning the results of foundation work. Foundations have not as a rule been good at communicating what they and their grantees are actually accomplishing.

These are some of the larger patterns in philanthropy: growth, variety, media scrutiny and questions about accountability. Let me now turn to the second question: Why should you care about philanthropy and foundations? Philanthropy has always been in our midst. Won't it continue to flourish?

One reason to care is that all of us depend on philanthropic activity, even if we don't know it. Philanthropy provides 30% percent of the annual budgets of non-profit organizations across the U.S. The importance of the non-profit sector to our economy is clear – it employs 11 million Americans, 7% of total paid employment, and provides essential services in our colleges, universities and hospitals, day care centers and community organizations. Philanthropic contributions help sustain the non-profit sector that we value, but too often take for granted.

Another reason for caring: American philanthropy now serves as a powerful model for the rest of the world. As more nations adopt democratic governance systems, their leaders increasingly recognize that government cannot and will not do everything. Like us, they often look to a growing community of non-profit organizations. Presidents and Prime Ministers encourage philanthropy to support those non-profit organizations. And as wealth grows in new market economies, traditions of "giving back" are stressed.

Worldwide, there are dozens of new foundations building assets and grantmaking capacity in Africa, Asia, Latin America and Russia. In fact, there are now about 50 national associations of foundations around the world. Ford is helping a number of the new foundations with endowment and professional support. Many of the foundations closely watch other countries' policy and law related to philanthropy. The U.S. is one important model for them. We need to keep our model in good health.

Another reason to care about philanthropy pertains in particular to foundations. Foundations play a research and development role for society. Some foundations, Danforth and McDonnell here, and Ford use their money to test ideas, develop promising new solutions to society's problems. As these research and development efforts bear fruit, often foundations take the next step and build programs to greater and greater scale, sometimes creating entirely new organizations to do the work. This research and development role is a crucial part of America's philanthropic tradition.

I will mention two among many examples from the Ford Foundation that suggest the importance of this research and development role.

My first example of our research and development role is from the international arena. Many countries have formed what are often called Truth Commissions – national commissions whose public hearings and research reveal past abuses of power and human rights violations. Truth Commissions try to establish the historical facts. They give the victims a forum to tell their stories and their abusers the opportunity to admit guilt and express remorse. Some also recommended various forms of amnesty and reparations. Experience has shown that Truth Commissions can be important in addressing a nation's history of extreme trauma and helping it moving ahead.

Ford and other foundations helped support Truth Commission activities in Latin and Central America, more recently in South Africa, Nigeria, and Indonesia. A large body of experience has been accumulated on very complex questions such as: what the goals of Truth Commissions can be; how a commission should be constituted; the mechanics of setting one up; the staffing and resources it needs; how hearings should be conducted and proceedings publicized; whether it should confer amnesty, and more. Countries emerging from dictatorial rule seek answers to these and a host of other practical questions.

Ford will soon announce a grant that, with other donors, launches a new institution, the Center for Transitional Justice. The Center will gather and make available the knowledge and experience built up over the years. It will train people to work in and around truth commissions. It will conduct research on transitional justice efforts. It will have rapid response capabilities for countries seeking help in forming their own Truth Commissions. This Center for Transitional Justice is an example of how foundations can support people struggling with complex problems and then help create new institutions to carry that work forward.

I'll mention one more instance of Ford's work as a research and development arm of society since it is close to home for Washington University. One social change idea we are helping to incubate is the concept of Individual Development Accounts, or IDAs. Professor Michael

Sherraden came up with IDAs as a way to help poor families to accumulate capital and think strategically about life choices.

IDAs are savings accounts opened by low-income people. Their savings are matched on a dollar-for-dollar basis, or even three or four to one. The savings cannot be touched for a specified period and then only to buy a house, get an education, invest in a business. Savers often join savings clubs where they get peer counseling on personal finances and credit management. IDAs are based on the idea that assets may help develop new mind-sets that enable low-income people become more confident, longer-term planners and more successful.

Thousands of savers are enrolled in IDA programs all across the U.S. Their savings are matched by corporate and philanthropic donors and by city and state governments. Bipartisan congressional interest in the concept is evident and the British government indicated it may institute an IDA program. Ford and other donors have invested millions of dollars to expand and test IDAs. We and our grantees want to learn who saves, how much is saved, what are the savings used for, and does that make a real difference in people's lives.

So far the results are promising enough to lead Ford to want to help people incubating a variation on the idea – Kid's Accounts. These would be established with a deposit at birth. Further contributions would be made at milestones like completion of elementary school, community service or special achievement. And kids' own contributions could be matched. The kids' accounts could then be used at age 18 for educational expenses and other major life investments. We will see now if this idea begins to take off.

U.S. philanthropy has many examples like these where the core values I noted earlier—generosity, exploration of new territory, and philanthropic freedom have strengthened our nation. Andrew Carnegie's libraries, Rockefeller's creation of the University of Chicago, and many foundations' support for Sesame Street's creators are just a few we easily recognize.

Our society needs philanthropy and foundations to support people searching for solutions to the problems and the poverty we still have in our midst. We need philanthropy to support people researching, incubating and developing new ideas. Caring about the future of philanthropy and foundations is caring about ourselves, our communities, our society and our ability to renew ourselves.

If philanthropy <u>is</u> a large, creative, research and development force in our society, we should care about it. That means being alert to the key policy issues likely to affect it. My third question fits here: What are these issues? I'll touch on five briefly.

One is the proposed repeal of the estate tax. This controversial issue will generate debates about fairness, wealth redistribution, family farms and businesses, and philanthropy. It is important to remember that the inheritance tax falls on the estates of about two percent of the people who die each year. These are the wealthiest individuals, those most likely to leave large sums to universities, museums, hospitals, cultural and other institutions. Wealthy people seek to reduce their taxable estates in many ways. One method is to create a foundation or to leave money to a non-profit institution.

Many non-profit leaders fear that removal of the estate tax would eliminate the discussion between lawyers and wealthy clients that prompts planning for significant bequests. Common sense and experience suggest that if the estate tax is repealed, philanthropic gifts will decrease. Work done by the Treasury Department and the Independent Sector estimate a total repeal of the tax would reduce annual charitable bequests between 10% and 33%. This is a worrying prospect for the non-profit sector. Alternate proposals call for recalibrating the estate tax and gift tax laws, enabling wealthy people to pass tax free to beneficiaries larger sums than are presently allowed. Scaling back estate and gift taxes certainly will have less severe effects on non-profits. Each of us should think about the ramifications of estate tax proposals and participate in the debate.

Payout is a second philanthropic issue you will hear about. It relates to the core values I spoke of earlier – generosity, exploration and freedom. Some people argue that foundations should be forced to pay out more than the current legal requirement of five percent of their assets each year. Congress set a five-percent payout requirement to enable foundations to survive over the long term -- in perpetuity if that was the donor's wish. Congress recognized what investment managers know: taking more than five percent out of an endowment every year will eventually deplete it if there is no new money coming in. Proponents of higher payout levels think they are supporting increased generosity but that is debatable. Paying out 5% of a steady or slowly growing asset over 20 years produces more than paying 6.5% over the same period. That's because the 6.5% eats into the core and so 6.5% is being taken from a smaller and smaller base.

Increasing the payout requirement beyond 5% would compromise one of the core values of philanthropy - freedom. Some donors want the foundations they create to spend down their assets within their lifetime. But other donors want to create something that outlasts them. The 5% payout makes that possible. A vision of permanency drove philanthropists who established foundations like Ford, Rockefeller and Carnegie and many smaller family foundations that carry a family's name and generosity over many generations. The importance and potential of the work done by foundations with a long term vision should make us question what society would gain from limiting donors' freedom to create a foundation in perpetuity. So tinkering with the 5% payout level is far riskier than it seems at first glance. We all need to think about this issue.

A third issue grows out of what some call "venture philanthropy," or "bottom-line" philanthropy. Attention to venture philanthropy has grown with some of the new dot-com foundations' entrepreneurial, venture capital donors. It's a philanthropic model based on business discipline and thinking, focusing on measurable results and investing grant money and effort to get quantifiable outcomes. This mindset is not really new. Many foundations like Ford, Danforth and others have been concerned with strategy, results and accountability long before "dot-com" entered the English language. But there is a new surge of interest in this approach.

Obviously, this results-oriented concept is attractive. But only up to a point. It is unhelpful in suggesting that all foundation work can be measured in the near term. Some foundations' work does produce results such as people fed or housed, scholarships awarded, graduates produced, houses built, etc. But progress on social issues cannot always be measured in these terms. There is a danger that some venture philanthropists will support only what can be measured, or leave in

frustration when results don' t come quickly. Some social problems, almost by definition, are messy and so is the search for their solutions, requiring experimentation, patience, and often, a leap of faith.

An example is work in advancing human rights worldwide. Ford helps support the human rights movement that tries to protect people's basic dignity and well being in their home countries. Such work resists easy measurement. It takes decades to move from dissidents' ideas to tiny, new organizations, to international legal doctrine, to local custom.

Ford works with teachers of Islamic, Jewish and Christian tradition who are progressive thought leaders in their communities. They broaden thinking on women 's roles in society, the compatibility of religious teaching and family planning, and religious teaching and human rights. Again, their work resists easy measurements since it can take decades to bear fruit. So my cautionary note about venture philanthropy is this: yes – invest and measure, but not if it curtails expansive vision. Hold on to philanthropic dreams and promote them!

Donor intent is a fourth issue you will hear about. This is the charge that over time, foundations inevitably support activity contrary to their founders' intentions. Therefore, some argue that foundations should sunset after a generation or two. When you hear this charge, take time to learn if the foundations really are betraying their founders. I sometimes hear that Ford's current grant making is contrary to what Henry Ford's envisioned. But Henry Ford created the Ford Foundation with an entirely open charter, instructing the Foundation to work "all for the public good." No other substantive instructions. If Henry Ford had wanted something specific, he had the lawyers and wit to make that clear.

In the 1950s, when the Foundation's assets grew, the Ford family wanted to chart a new course for the larger foundation. A Ford family appointed task force laid out an expansive, internationalist agenda concerned with poverty, education, intergroup-relations, world peace and other matters. But with Ford family support, the task force also said that if other issues seem more important, they should become the priority. Ford's open-ended charter reflects many donors' views that a foundation needs flexibility to change as needs and conditions change. Many inventive entrepreneurs embrace this notion. So beware the easy assumptions about particular donors' intentions.

A fifth issue relates to the roles foundations should play. Some argue that many of today's foundations are too concerned with policy and too little with charity. They say the great donors of the past like John D. Rockefeller and Andrew Carnegie were practical humanitarians with no underlying agendas. But that's not so.
Rockefeller created Chicago's great university because he was critical of the quality of higher education in his era. He wanted to create a model for others to follow, not unlike the way some of today's foundations sponsor new model programs. Carnegie insisted that his libraries be open to all, regardless of race – quite a radical social statement for his time, as was his founding of Tuskegee Institute. Carnegie also created the Carnegie Endowment for International Peace, and built the Peace Palace at The Hague, now the International Court of Justice. These expressed his concern with U.S. isolationism and his hope that his philanthropy would enlarge America's world vision. These were clearly the actions of donors with agendas. A related historical

misconception is that great donors of the past did it all by themselves, with no professional staff getting in the way. In fact, they all had assistants who played key roles shaping grants and programs.

The proper role of foundations in society has been a subject of continuous debate in our country. Some people think foundations should be "charitable" and make grants that feed the hungry and house the homeless -- dealing only with immediate need. They do not believe foundations should also try to get at the root causes of hunger and homelessness. Here, they say, foundations cross the line into political activity.

But the law is very clear about what foundations can and cannot do in regard to political activity. It is forbidden to promote specific legislation, candidates and parties. It is permissible to do work on the root causes of complex social problems. This often means analysis, experimentation, institution building and policy advocacy. This work can generate disagreement and controversy. Those who disagree with the ideas underlying particular experimentation often find it convenient to criticize donors' use of funds for these purposes as "uncharitable."

My own view is that one of the most important roles of foundations today is social experimentation. Research and development has always been part of American philanthropy's tradition and heritage. We need to be sure to protect it. Our public policy has been to encourage the core values of generosity, exploration and freedom. America has benefited mightily from that policy. We must not compromise those values.

I hope you now have a sense of the dynamic nature of philanthropy today. Philanthropy has been beneath the radar but now debates about it are more than a blip on the screen. It is important to resolve the debates in ways that preserve philanthropy's creativity and the core values of generosity, exploration and freedom. That outcome depends in part on your interest and support in the near term

For the longer term, I offer four philanthropic predictions: First, the non-profit sector will play an increasingly important role in world affairs. It has often been at the margins but it will now move more toward center stage. We see a bit of this already with the landmines campaign, debt relief, truth commissions, etc. In these instances, non-profit organizations take sounding of our collective conscience, and prompt us to live up to national and international ideals. Philanthropy will be an essential underpinning for this emergence of non-profits on the global stage.

Two, nations that now have differing philanthropic laws and regulations will harmonize them so as to permit the globalized use of philanthropic funds. This would make it easier than it now is, for example, for a foundation or donor in a rich country to grant funds to a charitable organization in a poor country.

Third, if more organizations of conscience grow to scale and globalized philanthropy supports that growth, the current weighting of the world's three sectors (business, government, and non-profits) will be interestingly altered. The nonprofit sector may increasingly attract and hold

talented leaders and practitioners and have significant power to mobilize and channel public will and social movement that cross national borders.

Fourth and finally, we may then hear more of the authentic voice of disenfranchised people—the poor, marginalized ethnic groups, religious minorities, and other disadvantaged. I hope that is the case so that we enable the transformations people need and that philanthropy can bring. We will not survive as a world society unless we enable more people to live with dignity and confidence. Philanthropy can and should be a force for that fairness and opportunity worldwide.

Thank you.